

Message Text

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ACTION EB-08

INFO OCT-01 EUR-12 ISO-00 SOE-02 AID-05 CEA-01 CIAE-00

COME-00 DODE-00 DOE-15 H-02 INR-10 INT-05 L-03

NSAE-00 NSC-05 OMB-01 PM-05 ICA-20 OES-07 SP-02

SS-15 STR-07 TRSE-00 ACDA-12 /138 W

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TO SECSTATE WASHDC PRIORITY 2470

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UNCLAS CALGARY 0364

C O R R E C T E D C O P Y (TEXT THROUGHOUT)

E.O. 11652: NA

TAGS: ENRG, CA

SUBJ: HUSKY OIL TAKEOVER

1. LAST FOUR DAYS HAVE SEEN WHAT APPEARS TO BE COMPLEX HUSKY OIL LIMITED AND OCCIDENTAL PETROLEUM CORP. PLOY TO BRING ABOUT DEVELOPMENT OF HEAVY OIL RESERVES OF ALBERTA AND SASKATCHEWAN. THE SCRIPT HAS SO FAR GONE AS FOLLOWS: HUSKY ENTERED INTO SALES NEGOTIATIONS WITH PETROCANADA ON JUNE 10 AND THIS RESULTED IN PETROCANADA OFFER TO BUY ALL OUTSTANDING HUSKY COMMON STOCK AT DOLS 45 (CDN) A SHARE. ON JUNE 13, HUSKY BOARD REJECTED PETROCANADA TAKEOVER BID AND ANNOUNCED THAT IT HAD AGREED TO THE ACQUISITION BY OCCIDENTAL OF EIGHTY PERCENT OR MORE OF HUSKY S COMMON STOCK BY MEANS OF A STOCK TRANSFER. HOURS THEREAFTER, OCCIDENTAL INVITED PETROCANADA AND GOVERNMENTS OF ALBERTA AND SASKATCHEWAN TO JOIN AS EQUAL PARTNERS IN THE BUILDING OF A HEAVY OIL UPGRADING PLANT. OCCIDENTAL ANNOUNCEMENT NOTED NEED FOR ACCOMMODATION IN ROYALTY RATES, TAX INCENTIVES, ACCELERATED WRITE-OFFS, WORLD PRICE FOR SYNTHETIC CRUDE, AND EXPORT MARKET FOR HEAVY OIL PRODUCTS UNTIL THE UNCLASSIFIED

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UPGRADING FACILITY WAS ON STREAM, I.E., ALL OF THE CONDITIONS THAT HUSKY HAD HERETOFORE BEEN UNABLE TO EXTRACT FROM FEDERAL AND PROVINCIAL AUTHORITIES.

2. COMMENT: TRANSFER OF OWNERSHIP OF HUSKY PROPERTIES IN CANADA WILL REQUIRE APPROVAL OF FOREIGN INVESTMENT REVIEW AGENCY (FIRA). FIRA HAS ONLY RECENTLY TURNED DOWN AN

OCCIDENTAL BID TO ACQUIRE A 38 PERCENT INTEREST IN BRIDGER PETROLEUM CORP. OF CALGARY AND WE HAVE SERIOUS DOUBTS ABOUT THE WILLINGNESS OF EITHER FEDERAL OR PROVINCIAL AUTHORITIES TO ALLOW OCCIDENTAL TO ASSUME THE LEAD IN HEAVY OIL DEVELOPMENT. THERE IS A STRONG FEELING IN ALBERTA THAT THIS SHOULD BE THE PREROGATIVE OF A CANADIAN OWNED COMPANY. IT SHOULD BE NOTED THAT ALBERTA GAS TRUNK LINE (AGTL) HAD QUIETLY ACQUIRED FOUR PERCENT OF HUSKY S OUTSTANDING STOCK AND THAT IT (AGTL) HAD PLANNED TO BUY UP TO 15 PERCENT OVERALL INTEREST IN HUSKY OIL LTD. AMONG THE FIRMS BEING MENTIONED AS POSSIBLE PARTICIPANTS IN A LLOYDMINSTER OIL DEVELOPMENT ARE PAN-CANADIAN AND GULF CANADA.

3. HUSKY OIL LIMITED HOLDS ABOUT 1.6 MILLION ACRES OF HEAVY OIL RIGHTS IN THE LLOYDMINSTER AREA OF ALBERTA AND SASKATCHEWAN, AND THESE HOLDINGS COULD CONTAIN AS MUCH AS ONE BILLION BARRELS OF RECOVERABLE HEAVY CRUDE. HUSKY DOES NOT HAVE THE FINANCIAL RESOURCES TO UNDERWRITE THE DRILLING AND UPGRADING PLANT NEEDED TO DEVELOP THE LLOYDMINSTER RESERVES AND HAD PREVIOUSLY BEEN UNWILLING TO RELINQUISH CONTROL OF THE AREA TO OTHER OIL COMPANIES AND PARTICULARLY PETROCANADA. SOME CALGARY OILMEN CONTEND THAT ADVANCES IN RECOVERY TECHNOLOGY AND RISING CRUDE OIL PRICES WILL ENSURE THE VIABILITY OF HEAVY OIL UPGRADING FACILITY. OTHER INDUSTRY EXECUTIVES BELIEVE THAT IT WILL BE DIFFICULT TO BRING LLOYDMINSTER HEAVY OIL PRODUCTION UP TO A POINT (I.E., ANOTHER 100,000 UNCLASSIFIED

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B/D) WHERE AN UPGRADING FACILITY CAN BE ECONOMICALLY JUSTIFIED. SOME OIL COMPANY OFFICIALS TELL US THAT THE PREMIUM PRICES BEING OFFERED FOR HUSKY WILL MAKE A LARGE SCALE HEAVY OIL DEVELOPMENT IN THE LLOYDMINSTER AREA PROHIBITIVELY EXPENSIVE. ALBERTA ENERGY MINISTER DON GETTY TOLD THE PRESS THAT THE ALBERTA GOVERNMENT WOULD PREFER NOT TO GET INVOLVED IN NATURAL RESOURCE DEVELOPMENTS THAT CAN BE CARRIED OUT BY PRIVATE INDUSTRY, HOWEVER, THE ALBERTA ENERGY COMPANY (AEC) COULD POSSIBLY ACT AS A SURROGATE FOR THE GOVERNMENT OF ALBERTA.

4. OCCIDENTAL STOCK TRANSFER PROPOSAL INVOLVES EXCHANGE OF 80 PERCENT OR MORE OF HUSKY COMMON STOCK FOR NEWLY ISSUED OCCIDENTAL PREFERRED SHARES. ALL OF THE PREFERRED OCCIDENTAL SHARES WOULD BE CUMULATIVE DOLS 100 (US) STATED VALUE STOCK OF WHICH 90 PERCENT WOULD CARRY A DIVIDEND OF DOLS 10 (US) AND TEN PERCENT WOULD CARRY A DOLS 7.50 (US) DIVIDEND. THE LATTER CLASS OF PREFERRED SHARES WOULD BE CONVERTIBLE INTO OCCIDENTAL COMMON SHARES AT A PREMIUM OF ABOUT 16 PERCENT. ON THE BASIS OF PRESENT MARKET VALUES AND CURRENCY EXCHANGE RATES, EACH HUSKY SHAREHOLDER WOULD RECEIVE APPROXIMATELY .402 NON-CONVERTIBLE PREFERRED SHARE

AND .045 CONVERTIBLE PREFERRED SHARE FOR EACH SHARE OF HUSKY
COMMON STOCK. INVESTMENT ANALYSTS INDICATE THAT THE OCCIDEN-
TAL OFFER IS WORTH ABOUT DOLS 50 (CDN) A SHARE AND THAT IT
IS DECIDEDLY MORE ADVANTAGEOUS TO U.S. SHAREHOLDERS WHO
OWN ABOUT 65 PERCENT OF HUSKY S COMMON STOCK AS THEY WOULD
NOT HAVE TO PAY TAX ON STOCK TRANSFER.
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